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TOWARD THE SECOND AMERICAN REVOLUTION

LIBERTARIAN STRATEGIES FOR TODAY

Milton Mueller / Bill Evers

Murray Rothbard / Charles Koch

Leonard Liggio / Ed Crane

David Theroux

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ARTICLES

A SPECIAL SECTION ON STRATEGIES FOR ACHIEVING LIBERTY

14 **TOWARD A LIBERTARIAN THEORY OF REVOLUTION**
by Milton Mueller

18 **STRATEGIES FOR A LIBERTARIAN VICTORY**
by Murray Rothbard

26 **TAKING POLITICS SERIOUSLY**
by Ed Crane

28 **THE DISENCHANTED ELECTORATE: CAPTURING THE INDEPENDENT VOTER**
by Leonard Liggio

30 **THE BUSINESS COMMUNITY: RESISTING REGULATION**
by Charles Koch

36 **PARTY NEWSLETTERS: NO MORE KVETCHING**
by Bill Evers

38 **LESSONS FOR LIBERTARIAN CAMPUS RADICALISM**
by David Theroux

DEPARTMENTS

4 **EDITORIALS**
Demythologizing drugs
Are some more equal than others?
The true obscenity
H.L. Mencken's prophecy

8 **THE PUBLIC TROUGH**
Implications of Jarvis-Gann
by Bruce Bartlett

10 **CROSSCURRENTS**
by Walter Grinder

43 **BOOKS AND THE ARTS**
Crimes Against Women
edited by Diana E.H. Russell and Nicole Van de Van
Reviewed by Sharon Presley
G.K. Chesterton: Radical Populist
by Margaret Canovan
Reviewed by John P. McCarthy
Allies of a Kind
by Christopher Thorne
Reviewed by James J. Martin
An answer to Solzhenitsyn
by Tibor Machan

53 **CLASSIFIEDS**

THE BUSINESS COMMUNITY: RESISTING REGULATION

by Charles Koch

The majority of businessmen today are not supporters of free enterprise capitalism. Instead they prefer "political capitalism," a system in which government guarantees business profits while business itself faces both less competition *and* more security for itself. As California Governor Jerry Brown puts it, "Sometimes businessmen almost operate as though they'd feel more comfortable in a Marxist state where they could just deal with a few commissars who would tell them what the production goals were, what quota they had. . . . I am really concerned that many businessmen are growing weary of the rigors of the free market." *New York Times* columnist William Safire agrees with this sobering analysis: "The secret desire of so many top-level managers for controls and regulated monopoly is never openly stated. . . . But today's managerial trend is not toward accepting risk. It is toward getting government help to avoid risk."

Even Henry Ford II has pointed out that "it's not just liberal do-gooders, Democrats, unions, consumerists and environmentalists who are responsible for the growth of government. It's also conservative politicians who favor increased defense programs, especially if the money is spent in their own districts. It's bankers and transporters and retailers and manufacturers who want protection from competitors. It's insurance companies that lobby for bumper and air bag regulations that might lower their claims costs. It's even, if you'll forgive me, car dealers who want state government to protect them from the factory or from new dealers in their territory."

But that is only the tip of the iceberg. It was support from a large portion of the business community, including the Chamber of Commerce and the National Association of Manufacturers, which enabled Nixon to impose wage and price controls in 1971. Much earlier, bankers succeeded in pushing through legal prohibitions on the payment of interest on demand deposits. Moreover, the steel industry has just caused the government to set minimum prices on imported steel.

Businesses often fight bitterly against deregulation, as well as urging new controls. Despite support by both liberals and conservatives in Congress, deregulation of the airline industry has bogged down under heavy pressure from the airlines themselves. Deregulation of the trucking industry has buckled under pressure from the American Trucking Association.

My own industry, oil, is no different. Over the past five years our company has participated in dozens of hearings on regulatory matters before the Federal Energy Administration and the Department of Energy. At virtually all of these hearings, most oil companies have come down on the side of state regulation. Secretary of Energy James Schlesinger summed it up: "The oil industry loves regulation and has been in love with it for many years." Precisely so.

Businessmen have always been anxious to convince a gullible public and an opportunistic Congress that the free market cannot work efficiently in *their* industry, that *some*

governmental planning and regulations would be in the "public interest." Indeed, much of the government regulation which plagues us today has come only after businesses have begged and lobbied for it. Nearly every major piece of interventionist legislation since 1887 has been supported by important segments of the business community.

This old business strategy of accommodation with government paid off in the past to some extent, perhaps, but today it falls on its face. Business now suffers as much as the rest of society from the adverse consequences of its own interventionism—the exhaustion of the "reserve fund" predicted by the great economist Ludwig von Mises. Passed at the behest of business, regulations boomerang. A refiner may procure price controls on his purchased crude oil, yet later he experiences shortages and even may find price controls slapped on his own gasoline to capture his politically derived "excess" profits. Oil pipeline companies invite the DOE in to study regional pipeline needs, hoping that their particular project will be favored. But in the future, Washington may well make *all* pipeline decisions, and even build all pipelines.

Businessmen should realize that the more regulated an industry becomes, the less it can cope with changing conditions in the world. It is no coincidence that the four *lowest* ranking industries in return on capital today (airlines, railroads, natural gas utilities, and electric utilities) are also the most highly regulated.

The final stage of political capitalism is even worse. Richard Ferris, president of United Airlines (an exception in his industry) predicts, "Continued governmental control will mean airline service as you know it today will be seriously jeopardized. And, as service and equipment deteriorate, you will stand by helplessly as the threat of nationalization becomes reality." In the electric utility industry, a number of states have already organized agencies to take over from private utilities unable to finance needed additional generating capacity.

Even business's dwindling successes in achieving precisely the regulatory scheme desired by them do not guarantee future control. Just the opposite often occurs. Politically derived benefits for business cause hardships for other special interest groups, who apply pressure on the regulators to turn the regulatory weapon around.

Thus, the business community is growing more and more aware of the shortcomings of this strategy as more and more firms directly suffer the aftereffects of their own pathetic schemes. Moreover, examples of the ultimate consequences of interventionism, especially the plight of the railroad industry in the United States and major industries in Great Britain, are awakening businessmen to their own probable fate.

It is no coincidence that the four lowest ranking industries in return on capital today (air, rail, natural gas, and electric utilities) are also the most highly regulated.

Businessmen are also becoming justifiably concerned with the rapidly growing anti-business sentiment in this country. Recent public opinion polls show that a large portion of intellectuals and the general public believe that business—especially big business—has undue political power, which it uses to stifle and smash competition and to control prices.

TOWARD THE SECOND AMERICAN REVOLUTION LIBERTARIAN STRATEGIES FOR TODAY

The liberation of business

But business *can* free itself from this predicament, if only it *will*. As the Wall Street Journal recently noted, "Despite the blows they have suffered in the political arena [businessmen] still have the capacity to be highly influential in the political sphere. But they will not bring about such a reversal unless they are able to put aside short-term concepts in favor of those longer-term considerations. . . . We may be reaching the point where American businessmen will have to decide whether they *really* believe in the market system. If they don't, it is hard to see who will muster the political forces to defend it against its very real and often intensely committed enemies." In spite of business's sullied record in defending free enterprise, there are large numbers of businessmen who want nothing more from government than to be left alone. And these numbers are growing quickly today.

To survive, business must develop a new strategy. The great free-market and Nobel Laureate economist F.A. Hayek has prepared a guide for us:

Almost everywhere the groups which pretend to oppose socialism at the same time support policies which, if the principles on which they are based were generalized, would no less lead to socialism than the avowedly socialist policies. There is some justification at least in the taunt that many of the pretending defenders of "free enterprise" are in fact defenders of privileges and advocates of government activity in their favor, rather than opponents of all privilege. In principle the industrial protectionism and government-supported cartels and the agricultural policies of the conservative groups are not different from the proposals for a more far-reaching direction of economic life sponsored by the socialists. It is an illusion when the more conservative interventionists believe that they will be able to confine these government controls to the particular kinds of which they approve. In a democratic society, at any rate, once the principle is admitted that the government undertakes responsibility for the

status and position of particular groups, it is inevitable that this control will be extended to satisfy the aspirations and prejudices of the great masses. There is no hope of a return to a freer system until the leaders of the movement against state control are prepared first to impose upon themselves that discipline of a competitive market which they ask the masses to accept. The hopelessness of the prospect for the near future indeed is due mainly to the fact that no organized political group anywhere is in favor of a truly free system.

Before businessmen can serve as effective defenders of individual liberty and the free enterprise system, it is first necessary for them to learn precisely what free enterprise *is* and what it *is not*. We must do our homework; we must comprehend "the philosophic foundations of a free society." Only then will we have the necessary resolve to carry out the difficult task ahead.

Armed with understanding, businessmen can confidently proceed with the new strategy, which is composed of three parts: business/government relations, education, and political action

1. Business/Government Relations—The first requirement is to practice what we preach. People see our inconsistencies and—quite justifiably—simply don't believe businessmen anymore. How discrediting it is for us to request welfare for ourselves while attacking welfare for the poor. Our critics rightfully claim that we want socialism only for the rich.

Our credibility cannot be regained if we continue to file, hat in hand, to Washington while mouthing empty, insincere platitudes about free enterprise. We cannot continue to have it both ways. Government will not keep granting us favors on the one hand, while allowing us to run our own businesses as we see fit, on the other. *We must stop defending existing interventions and demanding new ones*. This might well diminish the impetus for new regulations and win new allies for us among intellectuals, legislators, and the general public.

Then we should advocate the repeal of existing regulations in our industries, as well.

Never ask for tighter regulation of a competitor even if he has the advantage of being less regulated than you are. This starts the suicidal cycle which ends in the destruction of both. Instead we should concentrate on loosening our own regulations. We should defend our own right to be free of unjust regulations, and not try to shackle competitors. Strategically, the critical point is to fight to eliminate, rather than continue, all interventions, even those that provide short-term profits. Only by rigidly adhering to this policy can we begin the step-by-step process of freeing ourselves.

Taxes are particularly troublesome, especially since many free market businessmen believe that tax exemptions are equivalent to subsidies. Yet morally and strategically, tax exemptions are the *opposite* of subsidies. Morally, lowering taxes is simply *defending* property rights; seeking a subsidy is asking the government to *steal* someone else's property for your benefit. Strategically, lowering taxes *reduces* government; subsidies *increase* government. Nor is it valid to say that reducing your taxes simply shifts your "fair share" of the tax burden to someone else. There is *no* "fair" share. Our goal is not to *reallocate* the burden of government; our goal is to *roll back* government. We should consistently work to reduce *all* taxes, our own and those of others.

Finally, we should *not* cave in the moment a regulator sets foot on our doorstep. Put into practice Henry Manne's recommendation that "the business community utilize available techniques of legal adversary proceedings to announce publicly and vigorously, both as individual companies and through associations, that they will not cooperate with the government beyond the legally compelled minimum in developing or complying with any control programs." As he urges, "publicize as widely as possible the inevitable inefficiencies, mistakes, and human miseries that will develop with these controls . . . help the public understand that morality, in the case of arrogant, intrusive, totalitarian laws, lies in the barest possible obedience and in refusal to cooperate willingly beyond the letter of the law." Do not cooperate voluntarily; instead, resist wherever and to whatever extent you legally can. And do so in the name of *justice*.

2. Education—Business's educational strategy has been guided more by concern with short-term "respectability" and acceptance by the establishment than with long-term survival.

We have voluntarily supported universities and foundations who are philosophically dedicated to the destruction of our businesses and of what remains of the free market. *This must stop*. We must stop financing our own destruction. Period.

Even when business has supported "free enterprise" education, it has been ineffectual because businessmen have had little understanding of the underlying philosophy or of a meaningful strategy. Businessmen have spent their money on disasters such as buying a "free enterprise" chair at their alma mater and watching in dismay as the holder teaches everything but free enterprise.

Also largely wasted has been the money contributed to those private colleges who make free enterprise noises, but have failed to produce competent graduates dedicated to establishing the free enterprise system. There are too many of these.

The development of *talent* is, or should be, the major point of all these efforts. By talent, I mean those rare, exceptionally capable scholars or communicators willing to dedicate their lives to the cause of individual liberty. To be effective, this talent must have the knowledge, skill, and sophistication to meet statist adversaries and their arguments head on, and to defeat them. They must have the desire and commitment to unceasingly advance the cause of liberty. Statists have succeeded while we floundered because they've had *their* talent, their cadre, to develop and sell *their* programs. During the 15 years I have been actively investing my time and money in reestablishing our free society, our biggest problem has been the shortage of talent. When conscientious, dedicated scholars or communicators worked on a project, we were effective; when they weren't available, we failed.

Thus, business must concentrate its support on those few institutes and university departments that have effective programs for producing a libertarian cadre.

Our own direct defense of business, particularly our media advertising, has been either bungling and pitifully ineffectual, or else downright destructive. We have substituted intellectual bromides for a principled exposition of a point of view. We have taken a conciliatory attitude. Our ads have applogized for profits.

We have accepted the fallacious concept that the corporation has a broad "social responsibility" beyond its duty to its shareholders. We have been made to feel *ashamed* of private ownership and profits, and have been hoodwinked into characterizing government regulation as "virtuous" and in the "public interest." As a typical example, the Advertising Council, backed by most of the major U.S. corporations, goes so far as to describe regulation as, "the promotion of fair economic competition and the protection of public health and safety." What simple-minded nonsense!

Instead of this bankrupt approach, we need to go on the offensive. We need to cast aside our desire to be popular with our colleagues and the establishment intellectuals, to cast aside our fears of reprisals by government. We need to advertise that the market system is not only the most efficient, it is also the *only moral* system in history. We need to attack government regulation for wreaking havoc on those it is allegedly designed to help—those least able to fend for themselves. We need to stigmatize interventionism as being intrinsically *unjust* because it deprives individuals of their natural right to use their lives and property as they see fit. We need to defend the right of "capitalist acts between consenting adults," in the words of Robert Nozick.

We need to cast aside our desire to be popular with our colleagues and with the establishment intellectuals, to cast aside our fears of reprisals by the government.

A recent demonstration of the need for arguments beyond the standard one of efficiency is the recent Supreme Court decision upholding a Maryland law (passed at the bidding of a service station dealers' association) barring oil producers and refiners from operating service stations. The Court found that, "regardless of the ultimate economic efficacy of the statute, we have no hesitancy in concluding that it bears a reasonable relation to the state's legitimate purpose in controlling the gasoline retail market. . . ." The determinative defense of business will rest not in arguments from efficiency, but in arguments from *justice*. To claim that the *state* has the right to "control the gasoline retail market" is totalitarian nonsense.

We must demand the same principled behavior of our organizations as we do of ourselves and our companies. When, for example, the Committee for Economic Development advocates "that public-private partnerships must be an essential part of any national urban strategy," business should *withdraw its support*. It should do the same if the Chamber of Commerce continues to promote government intervention under the philosophy espoused by a former president: "It's not possible or desirable to remove *all* the regulations."

TOWARD THE SECOND AMERICAN REVOLUTION LIBERTARIAN STRATEGIES FOR TODAY

New business organizations should be set up which refrain from asking for state protection and subsidies, and which, going further, criticize, expose and lobby against instances of political capitalism, of "the partnership between business and government." Only such organizations can help business regain the respect of the American people. In fact, a group of us is launching just such an organization, *The Council for a Competitive Economy*.

Such an organization will help businessmen avoid blunders similar to the Wichita Chamber of Commerce when it heavily promoted a one-billion-dollar coal gasification plant, which would have been partially owned by Wichita and subsidized by Washington. The people of Wichita rejected Chamber propaganda that the plant would not cost *them* anything and voted it down. Again, such an organization will help prevent blunders such as the business community in California opposing Proposition 13. These blunders create an image of business in cahoots with government to tax and exploit the people. Milton Friedman describes this as business following "its unerring instinct for self-destruction."

Business should also stop shackling the free-market position with antilibertarian stands such as hostility to civil liberties and an interventionist foreign policy. What a spectacle it is for the same people who preach freedom in voluntary economic activities to call for the full force of the law against voluntary sexual or other personal activities! What else can the public conclude but that the free-market rhetoric is a sham—that business only cares about freedom for itself, and doesn't give a *damn* about freedom for the individual?

The public reacts at least as negatively to business calls for still further foreign adventurism. What other feelings can we expect from people taxed and conscripted to save our foreign investments or to enlarge our foreign profits? We should take *our own* risks abroad, and not expect them to be borne by the American people.

Businessmen have been the first to support any sort of foreign adventurism, if only it is sold under the rubric of

"national security." If business really wants a free market/private property system it must resist government's foreign interventions as well as its domestic interventions. Businessmen must realize that the *single* greatest force behind the growth of government is foreign adventurism and its daughter—war. America cannot both be policeman to the world and have a free domestic economy; they are mutually exclusive. Our classical liberal forebears in England who struggled for free trade and laissez-faire realized this—the peace movement and the free trade movement are one and the same.

3. Political Action—Businessmen should be involved in politics and political action—from local tax revolts to campaigns for Congress and the presidency. But we should apply the same standards of understanding and principled behavior as in the other parts of our strategy. We must discard our lesser-of-evils approach to politics. This has brought only the continued growth of government.

Many businessmen who *do* see the need for a new strategy still hold out hope that the Republican Party will become "The Liberty Party," that this is its "philosophical heritage." If this is our only hope then we are doomed. The Republican Party is the party of "business" *in the worse sense*—in the sense of business accommodation and partnership with government. Historically, it is the party of wage and price controls, of high protective tariffs, of cartelization, of subsidies, of special privileges to business. And worse, the Republican Party is and has been a party of foreign interventionism and adventurism. This is scarcely the heritage upon which to build a "Liberty Party!" It is the embodiment of the *old* strategy which has failed so miserably.

Other free enterprise businessmen, grasping the futility in attempting to change the Republican Party, have eschewed political action altogether. They have concluded instead that, since ideas determine actions, we should limit our strategy to developing and spreading ideas. It is undeniable that ideas do determine actions and that we should refine and apply our ideas. But ideas do not spread by themselves; they spread only through *people*. Which means we need a *movement*. Only with a movement can we build an effective force for social change.

Our movement should have as its goal the fulfillment of the ideal of the free and independent entrepreneur. To accomplish this, our movement must destroy the prevalent statist paradigm and erect, in its stead, a new paradigm of liberty for *all* people. Our movement must avoid the faulty strategy of conservatives, whose acceptance of statist premises has caused their proposals to be simply moderate versions of the original statist schemes. Our movement must struggle for the realization of the principle of the free market rather than settle for immediately obtainable reforms. For, as Aileen Kraditor writes, "To criticize the (radical) agitator for not trimming his demands to the immediately realizable—that is, for not acting as a politician—is to miss the point . . . the more extreme demand of the agitator makes the politician's demand seem acceptable and perhaps desirable in the sense that the adversary may prefer to give up half a loaf rather than the whole. Also, the agitator helps define the value, the principle, for which the politician bargains. The ethical values placed on various possible political courses are put there partly by agitators working on the public opinion that creates political possibilities."

Such a movement already exists, the *libertarian movement*. Libertarianism offers the only systematic worldview that supports the ideal of the free and independent businessman. It only remains for businessmen to support this movement. How each businessman can best support it depends on his own abilities and resources.

Businessmen should not only support the movement's educational and single-issue activist arms. We should also support—with time and money—the Libertarian Party, the movement's political, mass action arm. The Libertarian Party is a vital organ of the libertarian movement, even if it *never* elects anyone to major office. It exposes large numbers of people, whose interest in questions of government intervention is limited to election time, to free market ideas. And, when we do get a significant number of votes for a libertarian candidate or on a libertarian issue, as with Proposition 13, people do listen. The Party causes libertarians to apply their philosophy to topical political issues, and to *act*. In sum, the Party transforms libertarianism from purely a political philosophy to a movement, to a force for radical social change.

Business *can* survive, but it *cannot* survive without the help of businessmen. By fighting against interventions, however profitable, by advocating a principled, philosophical defense of the free enterprise system, and by becoming a part of the libertarian movement, businessmen can, with pride, be a vital force in restoring our free society. To date, businessmen have not seen fit to do so. Whether businessmen do so in the future may determine whether business, indeed, has a future. Or deserves to.

Charles G. Koch is chairman of Koch Industries.

Rothbard

(continued from page 24)

libertarianism in many new and unexpected places is an inevitably growing response to the perceived conditions of objective reality. Given free will, no one can predict with certainty that the growing libertarian mood in America will solidify in a brief period of time, and press forward without faltering to the success of the entire libertarian program. But certainly, both theory and analysis of current historical conditions lead to the conclusion that the current prospects for liberty, even in the short-run, are excellent indeed.

Murray N. Rothbard is contributing editor of LR, *editor of the* Libertarian Forum, *and the author of* For A New Liberty, Man, Economy and State, *and many other works on libertarian theory, economics, and history. This essay is condensed from a much longer monograph on strategic questions; any breaks in continuity between sections is the responsibility of the editor.*